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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Investigation into allegations of fraud in travel at the United Nations Mission in Bosnia and Herzegovina

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the investigation into allegations of fraud in travel at the United Nations Mission in Bosnia and Herzegovina (UNMIBH).

2. The Secretary-General takes note of its findings and concurs with its recommendations.

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Report of the Office of Internal Oversight Services on the investigation into allegations of fraud in travel at the United Nations Mission in Bosnia and Herzegovina

Summary

The Investigations Section of the Office of Internal Oversight Services (OIOS) received a confidential report from United Nations staff members of fraudulent charges for excess baggage for military observers travelling from the United Nations Mission in Bosnia and Herzegovina (UNMIBH) to their home countries.

The evidence, adduced by the Investigations Section investigators between November 1998 and March 1999, showed that, from July 1996 until around September 1998, the Chief of the Travel and Traffic Unit in UNMIBH (hereinafter referred to as the Chief), who was located in Zagreb, had initiated a conspiracy with a local travel agent and an employee of a major airline to submit fraudulent invoices with false supporting documentation to UNMIBH. These were false because they contained false baggage charges and inflated airfares which the Chief would approve in his official capacity. These criminal actions caused the Organization to suffer an estimated loss of at least US$ 800,000.

Upon careful evaluation of the evidence, the case was referred by the Organization to the relevant authorities of the United States of America, for the prosecution of the Chief, who in mid-November 1998 had taken unauthorized leave from the mission area and returned to his home in New York. The relevant Croatian authorities were also advised of the evidence adduced for the prosecution of his accomplices in Zagreb. The Investigations Section investigators have worked closely with the United States and Croatian authorities.

In early January 1999, the Chief was indicted by a United States federal grand jury that charged him with conspiracy and wire fraud stemming from his initiation and participation in the fraudulent scheme.

Trial in the United States District Court for the Southern District of New York commenced on 13 September 1999, and on 28 September the Chief was found guilty by a jury on all five counts of the indictment. The prosecution's case was presented by assistant United States attorneys. The Chief faces a maximum penalty on each of the five counts of five years in prison and a fine, either the greater of US$ 250,000 or twice the gross gain or loss stemming from the offences, when he is sentenced by the United States District Judge. Sentencing is scheduled to occur on 8 December 1999. Such a judgement will allow the Organization to seek restitution from the Chief.

The Investigations Section of OIOS has also been cooperating with the Croatian authorities to secure both the prosecution of the accomplices and the restitution of the moneys they obtained by fraud from the Organization. According to recent information obtained by the Investigations Section from the Croatian authorities, the investigation is proceeding.

The Department of Peacekeeping Operations and Office of Legal Affairs of the United Nations Secretariat have reviewed the report. The comments of the Office of Legal Affairs have been incorporated and the Office agrees to advise on the third and fourth recommendations which are applicable to its role as legal adviser. The Department of Peacekeeping Operations concurs with the findings and agrees with all of the recommendations.

Contents

		Paragraphs	Page
I.	Background	1–8	4
II.	The investigative findings	9–31	5
	A. First component: conspiracy with the local travel agent	11–15	5
	B. Additional evidence involving a third airline	16–18	6
	C. Second component: conspiracy with the local employee of a major international airline	19–21	6
	D. The interview of the Chief	22–23	6
	E. Efforts by the Chief to cover up his scheme	24–26	7
	F. Referral for prosecution	27–31	7
III.	Conclusions	32–33	7

I. Background

1. The Chief entered the United Nations service in 1981 and ended his United Nations career in December 1998. He served as Chief of Travel in several United Nations missions.

2. In November 1995, he was appointed to his last post as Chief of Travel in the United Nations Peace Forces (UNPF) and at the United Nations Mission in Bosnia and Herzegovina (UNMIBH), following the establishment of that Mission in January 1996. Although UNMIBH headquarters was in Sarajevo, the travel office was in Zagreb where access to airlines and travel agencies was easily available. The Chief was responsible for making arrangements for the travel of the military observers and civilian police monitors in UNMIBH. He was also responsible for reviewing and certifying invoices for air travel to ensure that travel claims were correct and appropriate and that all applicable discounts to which the United Nations was entitled for that travel were credited to the United Nations.

3. As negotiated by his predecessor, among the airline discounts to which the United Nations was entitled were those relating to baggage that accompanied peacekeeping personnel in their official travels. Under these discounts, the peacekeeping personnel were entitled to carry with them up to 100 kilograms (kg) of excess baggage without extra charge, even though the airlines customarily imposed charges for such accompanied baggage according to a predetermined tariff which often exceeded the cost of the passenger ticket.

4. Invoices for air travel by peacekeeping personnel were provided to UNMIBH either by local travel agencies retained by the United Nations to make travel arrangements or by the airlines directly. The Chief received these invoices and reviewed them. After he had certified the invoices as proper, by stamping and signing them, the United Nations paid the invoices by transferring funds either by check or by wire transfer from United Nations bank accounts located in either Zagreb or New York.

5. Shortly after his arrival in Zagreb, the Chief directed his staff to include costs for excess baggage in travel documents and undertook the first steps in his fraud scheme. By late 1997, the scheme was in full effect and it was reported by United Nations staff members to the Office of Internal Oversight Services (OIOS) pursuant to the provisions of Secretary-General's bulletin ST/SGB/273 of 7 September 1994. To protect the sources, the Investigations Section of OIOS decided to request that travel operations first be examined as part of a routine audit. A careful and thorough audit, conducted in October 1998 by the UNMIBH resident auditor, confirmed a number of audit irregularities. An Investigations Section investigation plan was developed and, beginning in early November 1998, an Investigations Section team was assigned to conduct an investigation in order to determine whether evidence could be adduced that would either clear the UNMIBH staff member responsible for travel or prove misconduct.

6. The investigation concluded not only that the Chief had known about the airline excess baggage discounts but also that he himself had masterminded a plan to take full advantage of this situation in order to defraud the Organization. In this regard, one of his staff told Investigations Section investigators that on the Chief's very first day in the travel office in Zagreb, he asked her why the United Nations was not obligating funds for excess baggage on the travel authorization forms. He was told that this was not necessary because several airlines were providing 100 kg for free. However, the Chief did not accept this answer and instructed his staff to obligate funds for excess baggage. These funds were utilized to make the fraudulent payments.

7. The evidence adduced by the Investigations Section revealed that, besides the statements by his staff, the Chief had known about the excess baggage discounts provided by the airlines through other sources. He knew of the discount, first, from airline representatives who had communicated this to him both orally, in numerous conversations, and in writing; second, from his accomplices; and third, from United Nations records, including the travel authorizations he had signed when he first arrived in Zagreb.

8. The evidence further revealed that the Chief had not implemented his scheme alone. The first step he took was to find vendors who would agree to conspire with him by sending false invoices for excess baggage to UNMIBH. And he did find them. UNMIBH staff and others told Investigations Section investigators that, after his arrival in the Mission, the Chief began his search for a new travel agency to replace the large travel agency that the Mission had been using for

several years. When queried by his staff on the reason for this sudden change, the Chief indicated that he wanted to operate with a smaller agency because a smaller agency would offer better deals than a larger one. One travel agent contacted by Investigations Section investigators revealed that the Chief had told him that he could become very rich, but the travel agent declined to join the scheme because "I wanted to sleep at night". In fact, the Chief wanted a small agency that would be dependent on his business and he ultimately found a small agency that agreed to conspire with him.

II. The investigative findings

9. The persons interviewed by the investigators included present and former UNMIBH staff members, employees of major airlines operating in the Mission area and the two local accomplices of the Chief. In separate interviews, these accomplices admitted to the Investigation Section investigators that, upon the Chief's request, they had conspired with him in an elaborate scheme to defraud the Organization by submitting to UNMIBH fraudulent invoices and supporting documents that contained false baggage and airfare charges. Also, each of them provided the investigators with a handwritten statement detailing the scheme.

10. Based on the evidence adduced in the course of the investigation the Investigations Section of OIOS determined that the fraudulent scheme had two substantively related but operationally different components.

A. First component: conspiracy with the local travel agent

11. The first component involved a local travel agency, and was in operation from October 1996 until September 1998. The owner of that travel agency stated to Investigations Section investigators that, in furtherance of his conspiracy with the Chief, the latter had instructed him to prepare and submit to him at his Mission office false and fraudulent invoices for the travel of peacekeeping personnel.

12. The owner further indicated that the invoices he had prepared pursuant to the Chief's instructions contained both (a) charges for up to 100 kg of accompanied excess baggage, even though he knew that, under the terms of the special discounts provided by the airlines, the United Nations was exempted from the obligation to pay those charges and (b) inflated airfares for tickets for official travel by United Nations peacekeepers.

13. In order to create the false impression that the excess baggage charges were accurate, the owner of the travel agency had submitted to the Chief a supporting industry document called a Miscellaneous Charges Order (MCO) which was attached to the invoices. This document, used by the airlines generally as a "cheque" paid by the client to cover non-ticket charges, was consistent with the invoice and was intended by the conspirators to show that the excess baggage charges detailed on the invoice had indeed been paid to the airline company via the MCO. The MCO was necessary because, in the absence of such supporting documentation, UNMIBH Finance would not have paid the charges reflected on the invoices.

14. Evidence from the two airlines whose tickets and MCOs had been used by the conspirators proved that these MCOs were false, and the owner of the agency detailed to the investigators how he had photocopied original MCOs and inserted "phony" charges in them before their submission, along with their corresponding invoices, to UNMIBH.

15. The owner of the travel agency further told the investigators that, from March 1997 to October 1998, he had provided the Chief with approximately $500,000 in cash. In support of his statement, he provided the investigators with photocopies of relevant pages of his personal diary, which contained entries documenting both the meetings with the Chief and the amounts of cash given to the Chief during each of those meetings. For his part, the Chief met regularly with the owner, and they even took a holiday together which was paid for by the owner. Not only did the Chief never question any of the agency invoices but he subjected UNMIBH staff in Finance to abuse when those fraudulent invoices were not paid within days. Moreover, despite numerous conversations with airline representatives who, as they told Investigations Section investigators, had repeatedly advised the Chief of the benefits of using their services, including 100 kg of free excess baggage, the Chief persisted in obligating funds for excess baggage, approving the invoices with false baggage charges and allowing payments to be

made for the non-existent airline charges for excess baggage.

B. Additional evidence involving a third airline

16. The Investigations Section investigators obtained evidence that revealed that, in June 1998, the representative of a third airline operating in the area, had provided the Chief with a written proposal regarding the travel of 24 United Nations peacekeepers. This proposal clearly indicated that the airline would provide 100 kg of baggage per passenger free of charge. The Chief accepted the offer but insisted that the transaction be made not directly with the airline but through a travel agency and not just any travel agency but, as the Chief required, the travel agency owned by his accomplice.

17. Documentary evidence obtained by Investigations Section investigators revealed that the cost of the travel had been only US$ 17,000 but UNMIBH was charged, and the Chief approved payment of, US$ 58,000. The Chief certified the invoice submitted to UNMIBH by his accomplice even though the agent had attached the US$ 17,000 correct invoice from the airline to his false invoice for US$ 58,000, thereby causing a loss of more than US$ 40,000 to the Organization with only one stroke of his pen.

18. When interviewed by Investigations Section investigators, the airline representative stated that the use of the travel agency had not been necessary. She further stated that, when she had expressed concerns about the travel agency's capability to make timely payment to the airline and her willingness to deal directly with the Organization, the Chief insisted that the purchase be handled via the agent he designated, and reassured her that he would personally ensure payment by the travel agency.

C. Second component: conspiracy with the local employee of a major international airline

19. The second component of the scheme involved the employee of another major airline and was in operation from approximately January 1996 to November 1998.

20. The evidence adduced by the Investigations Section of OIOS disclosed that the Chief had conspired with the employee of the airline in the same manner as with the owner of the travel agency, and with the same purpose, namely, to create charges for excess baggage provided free of charge to the United Nations by the airlines. The only difference was that, in order to conceal his wrongdoing from his supervisor, who was aware that the airline provided 100 kg of free excess baggage, the airline employee had to prepare false copies of invoices for his employer's internal files. Those copies did not reflect the imposition of any baggage charges, whereas the copies submitted to UNMIBH, using the same invoice number and the same total amounts, did contain such charges.

21. During his interview conducted by the Investigations Section, the airline employee told the investigators how the Chief had instructed him to submit fraudulent invoices to UNMIBH, how they divided the money stolen from the Organization and how the Chief demanded free and upgraded passenger tickets for himself and his family members.

D. The interview of the Chief

22. During his interview with the Investigations Section investigators, the Chief stated initially that because he "(did) not speak the Croatian language" he had had no direct contact either with airline representatives or with travel agents. This was not true; both of his accomplices and the other airline representatives were able to speak English, several of these with great fluency. When presented with evidence clearly indicating that he had conspired with the owner of the travel agency, who spoke English, the Chief denied the allegations made against him, stating that he had been unaware that the airlines were providing the free baggage allowance. He contended that UNMIBH had been defrauded solely by the travel agent.

23. The investigators had been informed that the Chief's accomplice from the airline had left, with one of the Chief's staff, an airline ticket for a flight to New York which the Chief was supposed to take that very day. During the interview, the investigators asked him whether he had any travel plans in the future and indicated to him that his further assistance might be needed for their inquiry. The Chief replied that he had no travel plans.

E. Efforts by the Chief to cover up his scheme

24. The evidence further indicates that, when in November 1998 the Chief had learned that the Investigations Section investigators were questioning witnesses on the airline baggage charges, he contacted his accomplices and instructed one of them to bribe the investigators. At the same time, he rehired two former staff members to go through travel files and destroy all the relevant printouts provided by the airline companies that confirmed that the 100 kg of excess baggage were provided for free.

25. Furthermore, investigators obtained copies of letters sent by the Chief to the airlines requiring them to charge for excess baggage, and this was confirmed by interviews with the airline managers. Finally, within two days of being presented with evidence of wrongdoing, the Chief cleaned out his office and fled the Mission area without advising his supervisors.

26. Shortly after his arrival in New York, the Chief sent a letter to the Chief of Personnel Management and Support Service of the Department of Peacekeeping Operations of the United Nations Secretariat to advise that he would not seek renewal of his contract which was to expire on 31 December 1998.

F. Referral for prosecution

27. The Investigations Section of OIOS developed further evidence in the Sarajevo and Zagreb offices of UNMIBH. Upon careful evaluation of the probative value of the material gathered during this investigation, the Organization decided to refer the case to the relevant authorities of the United States of America. The United States Attorneys Office for the Southern District of New York accepted the case and in late December 1998, the Federal Bureau of Investigation arrested the Chief at his New York residence.

28. In early January 1999, the Chief was indicted by the grand jury following testimony and other evidence acquired by Investigations Sections investigators.

29. Following the lengthy discovery, the trial began in Federal Court on 13 September 1999. Several United Nations staff members and other persons initially interviewed by Investigations Section investigators provided testimony during the Chief's trial. On 28 September 1999, the Chief was found guilty by a jury on all five counts of the indictment for conspiracy and wire fraud stemming from his initiation and participation in this fraudulent scheme.

30. The Chief faces a maximum penalty on each of the five counts of five years in prison and a fine of the greater of US$ 250,000 or twice the gross gain or loss stemming from the offences when he is sentenced in early December by the United States District Judge. Once judgement is entered, the Organization can take legal measures to secure restitution.

31. The Investigations Section has also provided the relevant Croatian authorities with substantial documentary evidence confirming the criminal activities perpetrated by the Chief and his accomplices. These authorities are completing their investigation.

III. Conclusions

32. First, the findings contained in the present report clearly demonstrate that the Organization was the victim of significant fraud over a period of two years. Second, the supervision over expenditures was too lax in this peacekeeping mission: the Chief's decisions were not properly controlled. Third, arrangements with financial implications, such as the free baggage offer, were not in writing.

33. The following recommendations are made:

(a) First, the outcome of this investigation has been largely facilitated by the initial report made to the Investigations Section of OIOS by two staff members, one an international staff member and the other a locally recruited staff member. It is recommended that the Department of Peacekeeping Operations officially commend these staff for their effectiveness in protecting the interests of the Organization (IV98/127/01);

(b) Second, it is recommended to the Department of Peacekeeping Operations that this report be included in Lessons Learned programmes, especially for the training of new Chief Administrative Officers as well as Chiefs of General Services, Finance and Travel before they are sent on mission assignments (IV98/127/02);

(c) Third, it is recommended that the Department of Peacekeeping Operations consult with the Office of Legal Affairs and the Department of Management regarding debarring the Chief from any

future United Nations assignments and the travel agency from future United Nations contracts. (IV98/127/03);

(d) Fourth, it is recommended that the Department of Peacekeeping Operations explore, in consultation with the Office of Legal Affairs, the Organization's options for further steps in the case, namely a civil action against the Chief with a view to recovering assets lost by the United Nations as a result of his criminal activities, and continued cooperation with the relevant Croatian authorities in prosecuting the Chief's accomplices in Croatia and obtaining full recovery of all United Nations losses (IV98/127/04).

The Department of Peacekeeping Operations concurs with the findings and agrees with all of the recommendations, noting particularly the plan to include the case in the Lessons Learned programmes. The Office of Legal Affairs agrees to consult on the third and fourth recommendations.

(*Signed*) Karl Th. **Paschke**
Under-Secretary-General
for Internal Oversight Services